

Organizational Structure Options

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HELPING PEOPLE AND COMMUNITIES BECOME, AND REMAIN, ECONOMICALLY SECURE

Insight Center Overview

The Insight Center for Community Economic Development (formerly NEDLC) is a national research, consulting and legal organization that develops and promotes innovative solutions that help people and communities become, and remain, economically secure.

We work in collaboration with foundations, nonprofits, educational institutions and businesses to develop, strengthen and promote programs and public policy that:

- Lead to good jobs—jobs that pay enough to support a family, offer benefits and the opportunity to advance
- Strengthen early care and education systems so that children can thrive and parents can work or go to school
- Enable people and communities to build financial and educational assets



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Should you form a legal entity?

Advantages:

- Liability protection
- Ability to own property and enter into contracts
- Potential for tax-exempt status and grants

Disadvantages:

- Formalities
- Filing requirements



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Legal Structure Alternatives

Corporation

- Non-profit
- For-profit

Limited Liability Company

Cooperative



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Corporations

- Established by filing with the State
- Governed by a Board of Directors
- Purpose:
 - Non-profit – must be organized and operated exclusively for a tax-exempt purpose (charitable, educational)
 - For-profit – make money for shareholders (owners)



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For- Profit Corporations

Articles of Incorporation include stock – number of shares and classes authorized

- Stock is sold to investors
- Stockholders appoint directors
- Directors adopt bylaws and appoint officers

Operations

- Directors and officers control the business
- Stockholders elect and can remove directors



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Non-Profit Corporations

Can receive grants and tax-deductible contributions

- Must establish tax-exempt status under Section 501(c)(3)
- File application with IRS
 - Detailed description of current and/or proposed activities and how they further tax-exempt purposes
 - Qualifications of Board Members and key staff
 - Fundraising plans
 - Projected budgets



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501(c)(3)'s -The 3 Major Principles

- Organized and operated exclusively for charitable (or other exempt) purposes
- Activities do not benefit any private person or interest
- Assets are irrevocably dedicated to charitable purposes



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Charitable Purposes

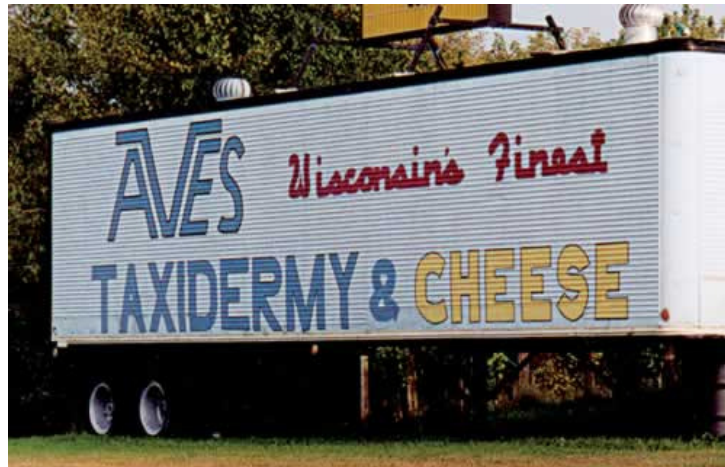
Every 501(c)(3) organization must have one or more **tax-exempt purposes**

Examples:

- Developing affordable housing for low-income families
 - Providing job and leadership training for at-risk youth
 - Helping low-wage agricultural workers start businesses
 - Providing financial literacy training
- The org may engage in activities unrelated to its exempt purpose only if the unrelated activities are **insubstantial** in relation to its total activities



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Non-Profit Corporations

- Governed by a Board of Directors
 - Can, but are not required to, have members
- Membership organization:
 - Normally members elect Directors
 - Members must approve major decisions
- Non-membership organization
 - The Board is 'self-perpetuating'



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Limited Liability Companies (LLCs)

Formation

- File with the State
- Investors become Members
 - Can have more than one class of members
 - Members can be entities, like corporations, as well as individuals
- Members negotiate operating agreement

Operations

- Controlled by the operating agreement
- May be managed by members, a Board of Directors or a hired manager



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Limited Liability Companies (LLCs)

Purpose

- Normally, to make money for the Members
- Can be a worker-owned business
- Can be tax-exempt if all members are tax exempt organizations and:
 - Organized and operated exclusively for charitable (or other exempt) purposes
 - Activities do not benefit any private person or interest
 - Assets are irrevocably dedicated to charitable purposes



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Cooperatives

Formation

- File articles with the State
- Members elect Board of Directors
- Board adopts bylaws

Purpose

- Meeting the needs of the member/owners
 - Produce co-op's goods or services
 - Agricultural co-op
 - Purchase from co-op
 - Cooperative natural food store



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Cooperatives

Operations

- Normally one member-one vote
- Economic benefits can be shared equally or on the basis of member's participation
- Sale or transfer of membership interest is limited or prohibited

Alternative Structure

- An LLC can function as a cooperative while providing more flexibility



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Choosing a Structure - Corporations

Advantages

- Required if seeking tax-exempt status
- For-profits can sell shares to large numbers of investors
 - may have to comply with securities laws

Disadvantages

- Structure less flexible than LLC
- Formalities



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Choosing a Structure - LLC

Advantages

- Extremely flexible form
- Easy to set up and change

Disadvantages

- May be unfamiliar to some people
- Tax-exemption available only if all members are tax-exempt organizations



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Choosing a Structure - Cooperative

Advantages

- Well established form in certain industries – agriculture, fishing
- Voting power not linked to ownership interest
- Can have large number of members

Disadvantages

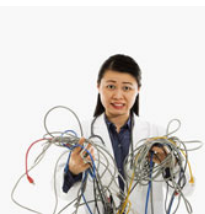
- May be unfamiliar to some people
- Cannot be tax-exempt under 501(c)(3)
- Very inflexible structure



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Choosing a Structure

Which option is best?



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Choosing a Structure

It depends!

- What is the purpose of your organization?
- What is important about a structure?
 - Easy to set up and change?
 - Ability to get tax exemption?
 - Benefiting members?
 - Attracting investors?



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